

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

TRANSFERRING BOUND PRINTED MATTER
PARCELS TO THE COMPETITIVE PRODUCT
LIST

Docket No. MC2021-78

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1 – 3a
AND 4b OF CHAIRMAN'S INFORMATION REQUEST NO. 2
(April 22, 2021)

The United States Postal Service hereby provides its responses Chairman's Information Request No. 2, issued on April 15, 2021. Each question is stated verbatim and is followed by its response. The Postal Service is in the process of determining whether quantitative analyses responsive to Questions 3b and 4a exist. The Postal Service will file those answers with an appropriate motion.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please provide, for each of the four parcel products the Postal Service has transferred from the Market Dominant to the Competitive Product list, described on Page 1 of the Request, the following information:
 - a. Quarterly revenue per piece by weight increment
 - b. Any analysis of change in USPS market share according to the market definition used to support the transfer request
 - c. The price of the product at the time of the transfer
 - d. Percentage changes in the price of the product, by year, from the time of the transfer to the present
 - e. The volume of the product entered in the last full fiscal year prior to the transfer request
 - f. Annual volumes of each product, by fiscal year, from the time of the transfer request to the present

Response:

As to Question 1a, this information is already in the Commission's possession. The quarterly revenue information is contained in the billing determinants that the Postal Service files quarterly and with its annual compliance report. See, *e.g.*, USPS-FY20-NP1 - FY 2020 Domestic Competitive Product Billing Determinants (Dec. 29, 2021).

As to Question 1b, there is no such analysis.

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As to Question 1c, the four parcel products already transferred from the Market Dominant product list to the competitive product list, their dates of transfer, and their prices at transfer as published in Notice 123 are:

Commercial Standard Mail Parcels, Docket No. MC2010-36.

Transferred by Order No. 689 (Mar. 2, 2011); transfer effective Jan. 22, 2012.

Prices on effective date:

<https://pe.usps.com/archive/pdf/DMMArchive20111107/Notice123.pdf>

Commercial First-Class Mail Parcels, Docket No. MC2011-22.

Transferred by Order No. 710 (Apr. 6, 2011); transfer effective Oct. 1, 2011.

Prices on effective date:

<https://pe.usps.com/archive/pdf/dmmarchive20120122/Notice123.pdf>

Parcel Post, Docket No. MC2012-13.

Transferred by Order No. 1411 (Jul. 20, 2012); transfer effective Jan. 27, 2013.

Prices on effective date:

<https://pe.usps.com/archive/pdf/dmmarchive20130127/notice123.pdf>

and

Retail First-Class Mail Parcels, Docket No. MC2015-7.

Transferred by Order No. 4009 (Jul 20, 2017); transfer effective Sept. 3, 2017.

Prices on effective date:

<https://pe.usps.com/Archive/PDF/DMMArchive20170807/Notice123.pdf>

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As to Question 1d, see the following table for the percentage changes in prices from the date of transfer to the present:

Product	Avg. Price Increase 2012	Avg. Price Increase 2013	Avg. Price Increase 2014	Avg. Price Increase 2015	Avg. Price Increase 2016
Commercial Standard Mail Parcels / Parcel Select Lightweight	8.9%	9.8%	10.1%	9.8%	23.5%
Commercial First-Class Mail Parcels / First-Class Package Service - Commercial	3.7%	3.0%	5.0%	5.1%	12.8%
Parcel Post / Standard Post / USPS Retail Ground	n/a	21.0%	5.2%	11.4%	10.0%
Retail First-Class Mail Parcels to First-Class Package Service – Retail	n/a	n/a	n/a	n/a	n/a

Product	Avg. Price Increase 2017	Avg. Price Increase 2018	Avg. Price Increase 2019	Avg. Price Increase 2020	Time-Limited Price Change 2020	Avg. Price Increase 2021
Commercial Standard Mail Parcels / Parcel Select Lightweight	8.0%	7.0%	12.3%	4.2%	12.0%	20.0%
Commercial First-Class Mail Parcels / First-Class Package Service - Commercial	4.1%	3.9%	11.9%	2.2%	7.0%	6.5%
Parcel Post / Standard Post / USPS Retail Ground	3.8%	3.9%	3.9%	3.9%	0%	3.0%
Retail First-Class Mail Parcels to First-Class Package Service – Retail	9.9%	14.5%	13.3%	3.9%	0%	4.8%

As to Question 1e --

- Commercial Standard Mail Parcels, Docket No. MC2010-36, was filed 8.16.2010.
The total volume in FY2009 was 529,717,061.
- Commercial First-Class Mail Parcels, Docket No. MC2011-22, was filed 2.24.11.
The total volume of in FY2010 was 413,259,056.
- Parcel Post, Docket No. MC2012-13, was filed 4.26.12. The total volume in FY2011 was 70,217,810.

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- Retail First-Class Mail Parcels, Docket No. MC2015-7, was filed 11.14.14. The total volume FY2013 was 247,715,686.

As to question 1f, this information is already in the Commission's possession. The annual volume information is contained in the billing determinants that the Postal Service files with its annual compliance report. See, e.g., USPS-FY20-NP1 - FY 2020 Domestic Competitive Product Billing Determinants (Dec. 29, 2021).

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2. Please provide any analysis of the own-price elasticity of BPM Parcels (or any subcategory of BPM Parcels) used to inform the instant request.

Response:

In the third quarter of FY 2019, the elasticity of BPM Parcels, a weighted average across all dropship levels, was -1.103270. In the latest estimate filed with the Commission on January 20, 2021, the elasticity was -0.516482.

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3. Please refer to pages 10-11 of the Request and the statement that “close to two-thirds of the Postal Service’s BPM Parcel volume is at risk for immediate diversion should BPM Parcels see either a significant rate increase or significant degradation in service.”
 - a. Please quantify the term “significant” as used in the phrase “significant rate increase.”
 - i. The Department of Justice’s Horizontal Merger guidelines assess market reactions to a “small but significant” increase in price (SSNIP) and “most often use a SSNIP of five percent of the price paid by customers for the products or services” at issue. U.S. Dep’t of Justice and the Federal Trade Commission, Horizontal Merger Guidelines at 4.12 (August 19, 2010) (“2010 Merger Guidelines”), available at <https://www.justice.gov/atr/horizontal-merger-guidelines-4-08192010#4c>. Is the “significant rate increase” referenced at page 11 of the Request greater or less than a five percent increase in the BPM Parcels rate?

Response:

As a preliminary matter, the Postal Service believes that the five percent measure for a small but significant increase in price (SSNIP) has no significance here. The question assumes that a five percent increase over current prices would be significant. However, under the Horizontal Merger Guidelines cited, the test for significance in a price increase is measured not from *current* prices but rather from *competitive* prices. That is, to be significant, a price increase must be an increase from competitive prices the market would set rather than prices that are set by regulation or that are artificially low. Thus, “[i]n the context of sellers of goods or services, ‘market

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power' may be defined as the ability profitably to maintain prices above competitive levels for a significant period of time," Commentary on the Horizontal Merger Guidelines, United States Department of Justice and the Federal Trade Commission, March 2006, at 1, and "[e]conomists typically define market power by focusing on the ability to raise prices relative to the competitive price level, rather than the current price level." ABA Section of Antitrust Law, Market Power Handbook: Competition Law and Economic Foundations, 2nd Ed., 2012, at 2.

The Commission has previously applied the standard in this way and in this same context. Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, Mar. 2, 2011, (Order No. 689) (noting that "[a]ny pricing power the Postal Service may enjoy is illusory based on its pricing under one-pound parcels below cost." Order No. 689 at 16).

Further, in drafting the quoted statement, the Postal Service did not quantify "significant." The statement merely refers qualitatively to prices sufficiently high to cause mailers to change their behavior and produce a noticeable loss of business. Put slightly differently, the Postal Service was stating a conclusion in terms of the applicable market power test and the definition of a Market Dominant product in 39 U.S.C. § 3642(b)(1), *i.e.* that BPM Parcels is not a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products, set the price of the product substantially above costs, raise prices significantly, decrease the quality of the product, or decrease output. 39 C.F.R. § 3040.132(d)(1) – (4).

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4. Please refer to page 14 of the Request and the statement, "the market power analysis shows that the Postal Service does not exercise monopoly power over BPM Parcels."
- b. Has the Postal Service performed any analyses comparable to the "Small but Significant Price Increase" or "Hypothetical Monopolist" test described in section 4 of the 2010 Merger Guidelines with respect to BPM Parcels? If so, please provide all such analyses.

Response:

As stated above, the Postal Service believes that the SSNIP and hypothetical monopolist test should be applied in a particular way, not to identify monopoly power, which is the premise of the question, but rather to identify the applicable market for analysis. As defined by the Merger Guidelines, the central question in the hypothetical monopolist test is:

If, in response to the price increase, the reduction in sales of the product would be large enough that a hypothetical monopolist would not find it profitable to impose such an increase in price, then the Agency will add to the product group the product that is the next-best substitute for the merging firm's product The price increase question is then asked for a hypothetical monopolist controlling the expanded product group. *This process will continue until a group of products is identified* such that a hypothetical monopolist over that group of products would profitably impose at least a "small but significant and nontransitory" increase ["SSNIP"], including the price of a product of one of the merging firms. Department of Justice & Federal Trade Commission, Horizontal Merger Guidelines, *reprinted in* 4 Trade. Reg. Rep. ¶ 13,104, at § 1.11 (1992) (Emphasis added).

The discussion of the hypothetical monopolist test in the Merger Guidelines reinforces the point: "The Agencies employ the hypothetical monopolist test to evaluate whether groups of products in candidate markets are sufficiently broad to constitute relevant antitrust markets." U.S. Department of Justice and U.S. Federal Trade Commission

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Horizontal Merger Guidelines § 4.1.1 (2010). Please also see the answer to Question 3a.